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UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF KENTUCKY
(LEXINGTON DIVISION)

DIVISION OF
OIL, GAS AND MINING

In re:

LODESTAR ENERGY INC., et al.,

Debtors.

LODESTAR ENERGY INC. AND
LODESTAR HOLDINGS, INC.,

Plaintiffs,

v.

THE STATE OF UTAH, et al.,

Defendants.

) Case Nos. 01-50969 and 01-50972

) Chapter 11

) Jointly Administered under
) Case No. 01-50969

) Judge Joseph M. Scott, Jr.

) Adv. Pro. No. 02-5001

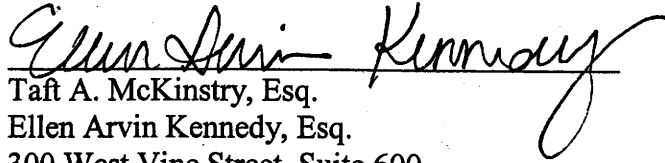
NOTICE OF FILING

Comes Lodestar Holdings, Inc. and Lodestar Energy, Inc., by and through counsel,
and hereby files the attached Affidavit of Troy L. Francisco.

Respectfully submitted,
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COUNSEL FOR PLAINTIFFS

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing was served via First-Class U.S. Mail, postage pre-paid, upon those listed parties listed below, as indicated, on this the 23 day of January, 2002:

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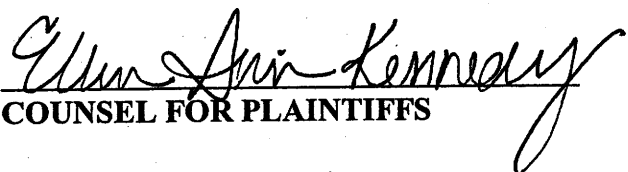
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COUNSEL FOR PLAINTIFFS

In re:	:	Chapter 11 Proceeding
	:	
LODESTAR ENERGY, INC. et al.,	:	Case Nos. 01-50969 and 01-50972
	:	Jointly Administered under
Debtors	:	Case No. 01-50969
	:	
	:	Judge Joseph M. Scott, Jr.

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II. STATUS OF LODESTAR REORGANIZATION

3. Lodestar is well positioned to attain the objectives established in the reorganization process over the next three to six months. However, the Utah mining operations are critical to a successful reorganization.

4. David Miller is Lodestar's Business Manager for the Utah operations and he is knowledgeable about the intimate day-to-day activities of the Utah operations. His Affidavit is being tendered contemporaneously with my own. Although I am not routinely involved in the day-to-day activities of the Utah operations, I am knowledgeable as to the significance of the Utah operations and their contribution to the reorganization effort.

5. The Utah operations are about to enter a phase of increased profitability. The Debtors have already incurred many of the fixed expenses associated with the Utah mines. The Utah operations are expected to generate vital cash flow and positive net income critical to a successful reorganization.

III. FRONTIER INSURANCE COMPANY

6. At all times relevant, the Utah mining operations were bonded through Frontier Insurance Company ("Frontier"). Lodestar has historically purchased reclamation bonds by paying a fixed percentage of the face amount of the bonds. The cost of reclamation bonds does not depend upon the quality of Lodestar's mining or reclamation operations.

7. Upon receipt of notification that Frontier was experiencing financial difficulties resulting in rehabilitation in New York, Lodestar investigated various alternatives to the Frontier bonds. In this context, the Debtors evaluated both alternative bonding solutions and the substitution of cash bonds as required on a case-by-case basis. It was immediately apparent that there are no viable options that can be pursued by Lodestar to substitute the Frontier bonds. Quite simply, the substitution is cost prohibitive.

IV. IMPACT OF UTAH'S THREATENED ACTIONS

8. At the present time, Lodestar is entertaining various proposals from prospective customers for the utilization of the Utah coal resources. The anticipated contracts will involve satisfying the requirements of these various customers over extended time periods, thus contributing significantly to the longer term stability of the reorganization. However, we cannot commit ourselves contractually with the looming threat of imminent shutdown.

9. If Utah is permitted to proceed with the threatened actions (referred to as the "Adverse Actions" in the Complaint), it will be difficult if not impossible for Lodestar to continue operations, not only in Utah, but overall as well. The cash flow from the Utah operations is vital to the future success of the Debtors and, without it, Lodestar again is confronting the likelihood of a complete shutdown of operations.

10. Imposition by Utah of the threatened actions would necessarily result in the immediate shutdown of the Utah operations, and most probably, in a very short time, the shutdown of Lodestar itself.

V. STATUS OF RECLAMATION

11. At the present time, to the best of my knowledge, Lodestar is current on all reclamation obligations in Utah.

12. At the present time, there are no outstanding demands for action issued by Utah in connection with the White Oak and Horizon mines. The State of Utah has recently determined that the reclamation bonding requirements at both Lodestar operations have decreased from \$4,292,000 to \$3,832,000 at the White Oak mine, and from \$711,000 to \$342,000 at the Horizon mine.

13. I have just returned from Utah where I again had the opportunity to observe the Lodestar operations firsthand. Nothing associated with the current status of those mining operations could properly be considered as threatening to the health, safety and or environment

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By:

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**CO-COUNSEL FOR DEBTORS AND
DEBTORS IN POSSESSION**

of the people of Utah. The mining plans submitted to and approved by the State of Utah are followed very carefully to ensure no threat will arise.

Further, Affiant sayeth naught.

Troy L. Francisco
Troy L. Francisco

STATE OF KENTUCKY)
)
COUNTY OF FAYETTE) ss:

Sworn to and subscribed before me this 23rd day of January, 2002.

Connie S. Shank
Notary Public

Dated: January __, 2002

Respectfully submitted,

SQUIRE, SANDERS & DEMPSEY L.L.P.

By: _____
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-and-